

Message Text

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ACTION EB-07

INFO OCT-01 NEA-10 ISO-00 FEA-01 ERDA-05 AID-05 CEA-01

CIAE-00 CIEP-01 COME-00 DODE-00 FPC-01 H-02 INR-07

INT-05 L-03 NSAE-00 NSC-05 OMB-01 PM-04 USIA-06

SAM-01 OES-03 SP-02 SS-15 STR-04 TRSE-00 /090 W

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R 051300Z FEB 76

FM AMCONSUL ALEXANDRIA

TO SECSTATE WASHDC 0051

INFO AMEMBASSY CAIRO

C O N F I D E N T I A L ALEXANDRIA 0087

E.O. 11652: GDS

TAGS: ENRG, EG

SUBJECT: PHILLIPS OIL DISPUTE WITH EGYPTIAN PETROLEUM COMPANY

1. UPON RETURN OF LOCAL AMERICAN MANAGER OF PHILLIPS OIL COMPANY TO HIS ALEXANDRIA OFFICE, CONGEN REVIEWED WITH HIM CURRENT STATUS OF LONG-STANDING DISPUTE WITH EGPC (GOE PETROLEUM ORGANIZATION).

2. DISPUTE CENTERS ON LEGAL STATUS OF LARGE CONCESSION OF WEPKO (WESTERN DESERT PETROLEUM COMPANY, PARTNERSHIP OF PHILLIPS AND EGPC) ABOUT 40 MILES SOUTH OF MERSA MATRUH. PHILLIPS CLAIMS THAT IT HAS PROVEN A "COMMERCIAL DISCOVERY" THERE AND SEEKS "DEVELOPMENT LEASE" FROM GOE. UNDER CONCESSION TERMS, PHILLIPS HAD "SOLE RISK" DURING EXPLORATION PHASE BUT AS "COMMERCIAL DISCOVERY" EGPC OBLIGED UNDERTAKE HALF OF DEVELOPMENT COSTS (IN RETURN FOR HALF OF ANY PROFITS).

3. EGPC CLAIMS PHILLIPS DOES NOT RPT NOT HAVE "COMMERCIAL DISCOVERY", HOLDING THAT TESTS UNDERTAKEN NOT OF SUFFICIENT DURATION AND DEPTH. THEY SEEK TO TERMINATE CONCESSION, LEAVING GOE THEORETICALLY IN POSITION TO OFFER IT TO ANOTHER PETROLEUM COMPANY, PRESUMABLY AGAINST RECEIPT OF
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NEW SIGNING BONUS AND BETTER INVESTMENT/PROFITS TERMS.

PHILLIPS BELIEVES PRESSURE IS ON FROM PETROLEUM MINISTRY
TO MAKE PHILLIPS OFFER DEVELOPMENT TERMS MORE FAVORABLE
TO EGPC.

4. IN MEETING FEBRUARY 4 WITH EGPC EXECUTIVES AND LAWYERS,
WITH PHILLIPS INDICATING READINESS TO GO TO ARBITRATION
ON ISSUE, CONGEN SOURCE SAID HE FELT REAL WILLINGNESS BY
EGPC TO SETTLE MATTER LOCALLY AND GREAT RELUCTANCE TO GO
TO ARBITRATION. EGPC SAID THEY WERE WILLING GO ONE MORE
TIME TO MINISTER AND URGE COMPROMISE ALTHOUGH MINISTER HAS
TWICE REFUSED GIVE DEVELOPMENT LEASE UNDER EXISTING AGREEMENT.

5. PHILLIPS MANAGER SAYS GOE "HATES" VERY IDEA OF ARBITRATION
(WHICH WOULD BE THROUGH INTERNATIONAL CHAMBER OF COMMERCE
IN SWEDEN) SINCE, WIN OR LOSE, IT WOULD MAKE FALSE LONG-
STANDING GOE CLAIM OF "NEVER ANY PROBLEMS" WITH PHILLIPS
AND OTHER WESTERN OIL INTERESTS IN CARRYING OUT EGYPTIAN
PETROLEUM DEVELOPMENT.

6. CONGEN ASKED PHILLIPS MANAGER TO KEEP HIM CLOSELY
INFORMED OF GOE REACTION TO LATEST MOVES IN THIS MATTER
AND, IF IMPASSE CONTINUES, TO CONSULT WITH AMBASSADOR
BEFORE MOVING TO ARBITRATION. HE ASSURED CONGEN HE WOULD
DO SO.
CHASE

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